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DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER of NorthWestern Energy's Application for Approval to Purchase and Operate PPL Montana's Hydroelectric Facilities, for Approval of Inclusion of Generation Asset and Cost of Service in Electricity Supply Rates, for Approval of Issuance of Securities to Complete the Purchase, and for Related Relief	REGULATORY DIVISION DOCKET NO. D2013.12.85 HYDRODYNAMICS INC.'S, PREHEARING MEMORANDUM
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**HYDRODYNAMICS, INC.'S
PREHEARING MEMORANDUM**

I. INTRODUCTION

Intervenor Hydrodynamics, Inc. ("Hydrodynamics"), acting by and through undersigned counsel, respectfully submits this prehearing memorandum. At the outset, Hydrodynamics has significant concerns about the inconsistent methodologies used by NorthWestern Energy ("NWE") to justify its acquisition of PPL Montana's Hydroelectric Facilities and that methodology used in the current QF-1 rate Docket D2014.1.5. Not only are these methodologies inconsistent, the differences in them appear to be designed to discriminate against qualifying facilities or "QFs" while favoring NWE's acquisition of resources that it owns. The Montana Public Service Commission ("Commission") may not see this discrepancy clearly, but it is evident to the QF community and to others.

QF development in Montana has been at a virtual standstill in Montana since 1993. There is no valid reason for this to be so, other than active obstruction and discrimination by NWE with the Commission's either knowing or tacit consent to this conduct. The instant Docket is yet another example of NWE attempting to have it both ways; to impose one set of costs and assumptions on the QF community while at the same time applying an entirely different set of assumptions to NWE's own investments. This obvious and patent discrimination against QFs by NWE with the Commission's either knowing or tacit approval must cease. Hydrodynamics and other Montana QFs have already prevailed before the Federal Energy Regulatory Commission ("FERC") in *Hydrodynamics, et al*, 147 FERC ¶ 61,049 (2014) which declared the "Montana Rule" (A.R.M. § 38.5.1902(5)) inconsistent with FERC's implementing regulations, and similarly declared inconsistent with those regulations the Commission's 50 megawatt ("MW") "cap" that unlawfully limited NWE to an obligation to purchase only 50 MWs of QF capacity. Hydrodynamics believes the differential treatment of QFs based on the very different cost calculation methodologies utilized in this Docket and D2014.1.5 is discriminatory and similarly subject to challenge. The Commission should not allow NWE to once again lead it into error.

II. SUMMARY OF ISSUES

Generally, Hydrodynamics will argue that NWE must utilize the same methodology by which it justifies its investments in construction and operations of its own projects in calculating avoided cost rates for QFs. Based on this filing, NWE is departing from this bedrock principle of non-discrimination as set forth in 18 C.F.R. 292.304(a) (1) (ii) which prohibits discriminatory rates for QFs. Hydrodynamics will conduct cross-examination to prove this point and to assist the Commissioners in understanding that permitting such discrimination against QFs is not only

bad for QFs, it is bad for ratepayers by permitting recovery from ratepayers of costs that the Commission has not permitted in avoided cost calculations.

III. CONTESTED ISSUES

Briefly, Hydrodynamics will contest the calculations by NWE regarding its costs of acquiring the PPL Montana Hydroelectric facilities, including the inclusion of a carbon cost calculation and its position that this potential acquisition will eliminate the need for QF capacity. These form the sum and substance of the issues that Hydrodynamics will pursue in cross examination at hearing. Hydrodynamics also reserves the right to address any issue raised by any other party in their prehearing memoranda or at hearing of this matter.

IV. WITNESSES

Hydrodynamics reserves its right to call any witness relied upon by any party in their case-in-chief or rebuttal case, if any. At present, Hydrodynamics intends to conduct cross examination of any and all party witnesses to this proceeding.

V. EXHIBITS AND DISCOVERY FOR INTRODUCTION AT HEARING

1. Hydrodynamics reserves the right to rely on any party's prefiled testimony, testimony introduced for the first time at hearing, and any exhibits prepared by any party that may be relevant.
2. All data responses by or to any party in this proceeding;
3. Any exhibit listed as an exhibit by any party to this proceeding;
4. Any document relied upon by any party at hearing.
5. Hydrodynamics further reserves the right to supplement this exhibit list with documents or evidence discovered in the course of preparing for hearing or necessary for impeachment or rebuttal.

VI. ORDER OF HEARING OR SEQUENCE OF WITNESSES

At this time, Hydrodynamics has no preference regarding the schedule of the order of witnesses.

RESPECTFULLY SUBMITTED THIS 20th DAY OF JUNE, 2014

UDA LAW FIRM, PC

By: _____

Michael J. Uda

Attorney for Hydrodynamics, Inc.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Prehearing Memorandum of Hydrodynamics was served, postage prepaid via First Class U.S. Mail on this 20th day of June, 2014, upon the following:

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